

Leveraging Japan

Marketing to the New Asia

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Chapter 1: The Fourth Rush

A large orange Hermes box in the middle of Tokyo's posh Ginza shopping district seemed strangely out of place, given the gloomy economic picture in Japan. Was this bold promotion a sign that the company was out of step with the times? Was it wishful thinking? Not at all. The success of Hermes, Tiffany's, Mercedes-Benz, and other luxury marketers, the rise of category killers and outlet malls, and the continued success of long-standing brands such as Coca-Cola and McDonald's are all indications that there is more to the Japanese market than its economic crisis. Tiffany & Company continued to grow its jewelry business at 13 percent per year from 1996 to 1998, despite the lackluster overall economy in Japan.¹ Tiffany's sales rose 21 percent year-to-year in the first half of 1998, even while sales fell by 16 percent in the rest of Asia.² Gucci is expanding its presence in Japan, opening several large stores in rapid succession, and it has a three-year backlog of orders from Japan for its version of the popular Hermes "Kelly" bag (named for Grace Kelly). Hermes, with sales up 30 percent in the first half of 1998, plans to open a flagship store in the Mercedes's Ginza in 2000. Mercedes's new "A-Class" model reached its first-year target of selling 7,000 cars well before the end of 1998.³ There is a wait of five to twenty-four months for some Mercedes-Benz models. At the other end of the market, McDonald's Japan posted a 13.4-percent increase in sales in 1998 (and nearly an equal increase in profits) driven by skillful pricing strategies and the opening of 459 new stores.⁴

What is going on here? Against the apparent economic stagnation, there is another cycle moving. There have been tremendous shifts in the Japanese market, a rise of new consumers, relaxation of regulations, and fundamental shifts in marketing. Sales of luxury goods are fueled by young women in their twenties, working women with few responsibilities, and the over-sixty "silver" generation who have already paid off their homes and are sitting on the largest savings hoard in the world. Other shifts, such as discounting and value consciousness, were underway when the recession hit and they have been accelerated by the economic crisis and increasing globalization-again creating new opportunities.

Companies who are able to discern these changes and capitalize on them are finding that this may be the best time to enter Japan. The Japanese market is essential in capitalizing on the opportunities across Asia. An October 1998 survey of foreign companies in Japan found that nearly three-quarters of participants cited the market's size and growth potential as key reasons for the market's attractiveness.⁵

Although some companies have cut back on their Japanese investments, others are moving in aggressively. Companies such as Starbucks, the Gap, and Merrill Lynch are expanding operations. Given the recent headlines about Japan, are all these new entrants crazy? They are not. These new entrants recognize that despite the turbulent restructuring of the Japanese economy-and in some cases because of it-there are tremendous opportunities due to changes in the Japanese market and its consumers.

The economic recession does create challenges, but it also creates favorable circumstances. Plummeting real-estate prices and high unemployment are making it easy to set up shop and find workers in Japan, both of which have been challenges for foreign entrants in the past. As shown in Exhibit 1.1, Tokyo's astronomical real-estate prices are now almost in line with those of New York City.

Foreign companies also have a productivity advantage, particularly in the service sector. A September 1997 Ministry of International Trade and Industry (MITI) survey found that productivity per employee was 1.7 times higher for foreign companies in Japan than for Japanese companies and 1.9 times higher for non-manufacturing companies.

What are the insights of creative domestic firms that are taking advantage of the market shifts to build their positions in Japan and Asia? How can you find the opportunities in these changes?

The Fourth Wave of Investment

Despite the turbulence of Japanese markets, foreign investors continue to swim like salmon against the current into Japan. A 1999 Japanese External Trade Organization (JETRO) Investment White paper found that foreign direct investment in Japan from April through September 1998 was more than double that of the previous year. (It had tapered off slightly in 1997 after a tremendous surge in 1996.) Stock and ownership acquisitions reached an all-time high of \$4.9 billion (¥593 billion) in 1997. Although manufacturing investments were up slightly, most of the new investment was from non-manufacturing sectors, particularly financial institutions and insurance, driven by the financial Big Bang. United States financial services firms, for example, invested \$1.3 billion (¥171 billion) in Japan in the first half of 1998. There were also increases in foreign investments in areas such as computer software and networks, advertising, cinema complexes, and satellite digital broadcasting.

Many of these companies were finding profit in Japan. A December 1998 survey of more than 3,000 foreign-capitalized firms found that more than half had increased profits over the year before, and that a third expected continued growth in 1999.⁷ Investments by foreign capital companies in Japan increased threefold between 1991 and 1995.⁸

The influx of foreign investment into Japan has been so great that it has led to speculation that a fourth rush into Japan is underway, as illustrated in Exhibit 1.2. The first was just after World War II, the second in the late 1960s and early 1970s when the West began to pressure Japan to open its markets, and the third came with the Plaza Accord of 1985, which brought in finance and brokerage entries in particular.⁹ The fourth is now driven by changes in consumer attitude and demographics that are creating new opportunities for foreign entrants to enter the Japanese market.

There is increasing acceptance of foreign firms. A 1998 survey by Nikkei Research of 4,000 men and women in Japan found that a significant portion of the population had no aversion to dealing with a foreign capital financial services firm (see Exhibit 1.3). They also showed a high awareness of foreign banking, brokerage, and insurance companies, as shown in Exhibit 1.4. (It should be noted that, with a 35.7-percent response rate, these awareness levels may be inflated.)

This may be a trying time for the Japanese economy, but it could be a key opportunity for companies entering or expanding their position in Japan to create a foundation for future growth in Asia.

Changing Consumers

Beneath the shifts in the economy, there are more fundamental changes taking place among Japanese consumers. Changes in demographics—in particular, a rise in unmarried working women—and changes in consumer behavior and attitudes are reshaping the post-war economy and mentality.

The impact of the emerging Japanese consumer can clearly be seen in the heart of the Ginza shopping district. A weathered signpost stands in the middle of the Eddie Bauer store on the second floor of the Hankyu department store in the Ginza. Wooden arrows on the old rural sign point to: "New York 10,807 km., Hamburg 8,985 km., Aspen 9,470 km., Chicago 10,067 km." But the Eddie Bauer flying goose logo and the duffel bags, canvas fishing vests, and backpacks that surround the sign give a different reading. They show that the distance between New York and Tokyo is decreasing every day.

One floor down in the Hankyu store, one of the first two Gap stores in Japan is engaged in a thriving business. A smiling young Japanese father juggles an infant as he walks through Baby Gap. As American soul artist Des'ree croons from the speakers, shoppers browse through racks of "Madison Avenue" pants. Striped Oxfords and jeans are on sale at prices comparable to Western stores in a nation where the cost of a shirt had typically been greatly inflated by a long chain of middlemen. Opening-day sales at this particular Gap topped ¥10 million (\$100,000), and the sales figures of the new stores quickly became among the highest of the retailer's 1,600 worldwide stores. The company has since opened more than thirty stores in Japan.

On the fourth floor, past the Timberland store, the escalator glides up into the sprawling HMV music store, where Japanese youth move through aisles of thousands of CDs. The latest albums of popular Japanese rock groups like Mr. Children and Ulfus and Tomomi Kahara sit side by side with albums by global pop stars such as Eric Clapton, George Michael, and Bon Jovi. Along one wall, a magazine rack displays *Cosmopolitan*, *Vogue*, *Elle*, *GQ*, and *Esquire*. Teenagers pick up headphones to sample music from all parts of the world. Seven years after entering Japan in 1989, British-based HMV had opened eighteen stores, generating more than \$200 million (¥21 trillion) in sales. Its nine stores in Tokyo outsell the chain's ninety stores in Canada.

In April 1998, the American president of Eddie Bauer traveled to Tokyo to celebrate the opening of the company's twenty-ninth store. The Shinjuku Southern Terrace Store attracted the president's attention because it had set a world record for daily sales, with approximately ¥14 billion (\$106,000) in daily sales. This occurred during one of the most turbulent economic periods in Japan's recent history. The company continues to experience dramatic growth in both stores and sales since its arrival in Japan, as shown in Exhibit 1.5.

Following the flight path of the Eddie Bauer goose are a host of other firms. In 1998, two years after Starbucks entered Japan, it had opened more than twenty-six stores and increased the pace of its expansion, announcing plans to build 250 Japanese stores by 2004.¹⁰ It has outpaced entrenched competitors and lower-priced rivals. Starbucks sees Japan as a key beachhead for Asian expansion. One of its biggest problems: The long lines of consumers snaking out of Starbucks coffee shops could alienate some consumers. For the company, it is a nice problem to have.

L.L. Bean had opened sixteen stores in Japan by early 1999. Sports Authority shook up sports specialty retailing when it opened its first store in Nagoya in the summer of 1996, and it continued to expand. Foot Locker soon joined in. By 1999, Office Depot and OfficeMax had each opened three stores, placing pressure on Japanese office supply firms. Saturn shipped its first cars over to new dealerships in Japan in 1997. Drug store

Walgreen, furniture retailer Crate and Barrel, French supermarket Carrefour, copy store Kinko's, Electrolux, and discounter Price CostCo are just a few of the other recent arrivals.¹¹ Toys 'R Us, one of the pioneering foreign retailers to enter Japan, estimated that its seventy Japanese stores would generate sales of \$100 billion (\$840 million) in the first quarter of 1999.¹² These companies are not simply transplanting Western businesses to Japan—they are using their global brands to develop distinctly Japanese businesses.

Leveraging the World's Second-Largest Market

The Japan visible in this rising consumer market is not the wounded samurai of the news headlines. Nor is it the impenetrable walled market discussed in the boardrooms of Detroit's auto companies. While the Japanese economy is facing unprecedented struggles and changes, the emerging nation is very much alive. This vibrant consumer market—the second largest in the world—is unlike anything Japan has seen in the past. A transformation is taking place, creating new opportunities for those companies that haven't passed by Japan on their way to other parts of Asia. If you are not in Japan, you are missing out on a big opportunity for a number of years, says Robert Simon, former chairman of Estée Lauder K.K., one of the most successful foreign cosmetic firms in Japan. No matter how big the potential is in most of Asia, it will take time to develop.

Asian markets may be the future, but Japan is the present. While Vietnamese consumers are buying Honda Cub motorbikes, Japanese consumers are buying BMWs and Mercedes. More than 21 percent of Gucci's worldwide sales come from Japan, and an estimated 70 percent of sales are to Japanese buyers (including visitors to Milan, Hawaii, and so on).¹³ As shown in Exhibit 1.6, Japan's gross domestic product (GDP) per capita overshadows almost every other country.¹⁴ Japan's per capita GDP is 3.4 times that of South Korea, 8.7 times that of Malaysia, 54.6 times that of China, and 30 percent more than that of the United States. Even after real estate and financial shocks, Japan still boasted a hefty \$10.3 trillion (\$1,195 trillion) in household savings in early 1997.¹⁵

Even with recent declines, the Japanese GDP per capita exceeds \$30,000, ahead of most advanced nations and at least parallel with the United States. It was only in 1980 that the Japanese GDP rose above the \$10,000 mark usually associated with developed nations. By 1995, Japan had more than tripled its GDP per capita.

In sheer size, the Japanese economy accounts for more of the world GDP than any other nation besides the United States, as shown in Exhibit 1.7. Japan's contribution to the world GDP outranks those of Oceania, China, and the rest of Asia combined.

Some companies and trade negotiators, particularly from the United States, were already suffering from Japan fatigue, bypassing Japan for other parts of Asia. But as Asian economies have stumbled, many have realized that in the short term, the money is in Japan. In the long term, the Japanese market and economy provides one of the best platforms for success in Asia.

Many companies have recognized the importance of this market. Equitable Life Insurance was inspired to make a serious commitment to Japan after it realized that capturing just 1 percent of the Japanese life insurance market would result in insurance business equivalent to the fifteenth-largest American life insurer. In some markets, Japanese unit volume is as great as it is in the United States even though there are only half as many people.

Open for Business

This large market, once locked behind regulations, complex distribution systems, and

loyal and enigmatic consumers, is now open for business. The changes in the Japanese market are a sign of a fundamental revolution: the emergence of a true consumer market. Japan's move to a consumer market can not only offer insight into the development of other Asian economies, but observe key Japanese players in their development as well.

Post-war Japan was dominated by large corporations churning out a steady stream of products that were snatched up by willing customers. Customers liked newness and change, but also tended to be more averse to risk and more quality-conscious than their Western counterparts. A new product from a respected corporation had nearly universal appeal, reducing the need for positioning and segmentation. Pricing and promotion played a minor role. Advertising focused on mood rather than benefits. Market research focused on quantitative measures such as market share and brand awareness rather than qualitative input such as communication effectiveness and persuasion. In a market in which there were numerous competitive entries due to rapid growth, the focus was on product quality and on being the first to fill the shelf space or showrooms. Developing channels of distribution and a corporate identity as a reliable supplier were the priorities, rather than creating differentiation through brand personalities. In a market in which the manufacturer dominated, there was no need to understand the customer.

This parallels the development of U.S. and European markets, but on an accelerated scale. To speed up the process of development, Japan relied much more heavily on scaffolding regulations and economic controls than the United States did. Now that the Japanese economy has emerged as one of the most powerful in the world, these "training wheels" are no longer an advantage; in fact, they threaten to slow it down and trip it up if Japan cannot dismantle them and create a more open economy. This is a central focus of Japanese government policy today. But the government and companies are still changing far more slowly than consumers. This gap creates opportunities for foreign entrants and creative domestic competitors.

Now, a market that was once treated as homogenous—where even experienced marketers spoke of "one Japanese"—has proven to have distinctive tastes. Skill in marketing has become a crucial factor for success. But companies cannot merely transplant their successful Western strategies into the Japanese market. They have to understand the complex mix of tradition and innovation that characterizes today's Japanese market.

While the overall growth of the Japanese economy is slow, market changes are creating pockets of new opportunities. Department store sales are declining, but convenience store sales and frozen food sales are increasing as more women enter the workforce. While the overall car market may be decreasing, there has been an increase in luxury car purchases. Sales of flat-screen televisions, cell phones, and personal computers are also on the rise.

Myths and Realities of the Japanese Market

Several interrelated forces have conspired to transform the Japanese market. There have been fundamental shifts in the nature of the Japanese consumer and the emergence of creative entrepreneurs to meet these new consumer needs. Consumer shifts have been precipitated by an increase in working women and a steadily rising marriage age. Changes have been encouraged by the slow, steady loosening of the stranglehold of regulations. And they have been driven forward by a typhoon of technology and innovation sweeping through distribution channels.

Changes in Japanese consumers, regulation, and distribution have turned traditional marketing wisdom about Japan on its head. In the old market, Japanese corporate leaders encouraged the myth that because of its traditional values, the Japanese social infrastructure was unique and immutable. According to this view, the keiretsu (networks

of Japanese firms), the byzantine distribution systems, and the trading customs were all an intrinsic part of these values. Thus, they were difficult, if not impossible, to change. But recent transformations in the Japanese market are exposing these views as myths.

Consider a few of the "myths" about the Japanese market that have been contradicted by recent experience:

Myth: Japanese customers make purchases based on relationships with retailers and manufacturers, so they rarely shop around.

Reality: Japanese customers shop around for value. Young consumers, in particular, do as much comparison shopping as their Western peers—and perhaps even more. Consider a study by MITI that asked consumers in New York, Tokyo, and London: "Do you shop around for a better deal in making a purchase?" Among older consumers, New Yorkers and Londoners were far more likely to shop around than their Japanese peers. The surprising result was for the under-twenty-nine group. In this age group, 75 percent of New York youth and 64 percent of Londoners shopped around for better deals. But in Tokyo, 78 percent of all young people would shop around for a better deal. This is nearly double the percentage of Tokyo consumers over fifty years of age.

The Japanese market, which once was differentiated based on social status (for example, from employment in a large corporation or seniority in a given career), is now being differentiated based on age, gender, and psychosocial criteria. There is no longer a coherent national system of values, and a new emphasis on individuality is expressing itself in a greater independence in all decisions, including purchases.

Myth: Japanese consumers equate price with quality.

Reality: Japanese consumers are now intensely concerned with price. In some cases, they are more price sensitive than their Western counterparts. Whereas the traditional Japanese customer demanded quality at any price, today's customers are seeking value. While more than 70 percent of retailers sold products at manufacturer's suggested price in 1998, only 29.4 percent were still following that practice five price-busting years later. The rest had cut prices.¹⁷ At the height of discounting in 1993, one out of every two suits was bought from a discounter. In general, Japanese customers are less willing to compromise quality for price than their Western peers. (Many discounters failed to see this, offering shoddy products at reduced prices, and they quickly lost their newfound markets to major brands, which had lowered their prices in response but maintained high quality.) Price is now a key competitive weapon.

Myth: Japanese customers are fiercely nationalistic, making it hard for foreign companies to enter the market.

Reality: If Japanese customers scorn foreign products, they don't show it. Japan is far more open to foreign products than some of its neighbors. Ninety-two percent of Japanese consumers said they prefer a superior product regardless of its nation of origin, compared to just 59 percent of respondents in South Korea and 68 percent in China.¹⁸ Products no longer have to be produced by Japanese workers to be accepted. McDonald's dominates fast food, Coca-Cola in soft drinks, Schick in razors, and Mars in pet foods. Japanese customers increasingly look for the best value, wherever it is produced. Japanese brands are still strong, but customers have accepted a dramatic rise in imports produced by offshore and foreign manufacturers (usually sold under Japanese brands). Even sales of import cars (including, for example, Hondas made in the United States) doubled between 1991 and 1995, and foreign cars rose from 4 percent to 11 percent of all new car registrations between 1991 and 1996.

Myth: Japanese consumers are conservative and will buy only well-known brands.

Reality: Consumers are willing to experiment with new tastes and brands, as shown in the rise of Asahi dry beer discussed later on. The initial rise of private brands in the late 1980s indicated the willingness of customers to trade a brand image for lower price. (A November 1998 survey of distribution companies found that the number handling private brands had increased to 56 percent, although the rate of increase had tapered off, perhaps because of concerns about quality.¹⁹) The experience of the 1980s and 1990s shows that customers are not wedded to traditional brands.

Myth: Japanese customers like face-to-face shopping and will not buy a product sight unseen.

Reality: Working women have less time to shop, so convenience has become more important. Direct-mail sales have grown from virtually nothing in the 1970s to more than one-fifth of the sales of large department stores today.²⁰ While retail sales fell during the recession, direct marketing sales continued to grow at a rate of 5 to 7 percent each year.²¹ Internet sales also continue to grow, both from domestic and foreign companies, showing that Japanese customers don't necessarily prefer shopping face to face, as long as value and selection are high enough.

Myth: Japanese distribution channels are impossible to enter.

Reality: Direct marketers and mail order companies are bypassing the distribution channels altogether. The rise of parallel imports is breaking through the expensive multilevel wholesale channels. Manufacturers are relying less on their traditional networks of keiretsu stores, and regulators are beginning to relax the large-scale retail law.²²

Myth: Japanese firms place long-term, stable relationships with other firms above all other considerations.

Reality: Today, the value-added of the relationship is most important. Every expenditure is carefully evaluated, and relationships between firms are far more expendable. For example, under pressure from clients, top advertising agencies are restructuring, focusing more on their creative contributions than merely on their access to media and to major firms. Tokyo Electric Power set aside its long-term relationship with equipment supplier Stachi to invite global contracts. Keiretsu relationships are disintegrating. In business-to-business sales, relationship-based marketing is losing power to benefits-based marketing.

Opportunities in Change

These changing realities create opportunities. In addition to the many foreign entrants moving into Japan, other foreign and domestic firms have taken advantage of the nation's new realities to find opportunities in this \$4.6 trillion (approximately ¥52 trillion) market. Companies are creating unique selling propositions in a land where *Ôbig and ambiguous* used to be a marketing virtue. A few examples:

- Procter & Gamble didn't sell dish detergent in Japan until 1995. By the end of 1997, its Joy brand had captured one-fifth of the \$400 million (¥51 billion) market to become the best-selling detergent in the nation. This was in a mature market that was dominated by powerful Japanese competitors such as Kao and Lion. But consumers proved they were willing to set aside respected Japanese brands for a product that better met their needs.

P&G had given up selling dish soap in Japan after the failure of Orange Joy in the 1970s, but times had changed. By studying Japanese consumers, P&G researchers found a need for a more concentrated detergent developed specifically for Japan. Shifting dietary patterns (such as increasing consumption of meat and fried foods) increased the need for a grease-fighting soap. P&G's

advertising stressed Joy's concentrated power in cutting grease as well as its gentleness on hands. P&G used a documentary format featuring interviews of homemakers by a famous comedian. Customers proved very willing to shift to a new brand that offered a better value proposition. P&G also used clever incentives in the distribution channel to encourage retailers to promote the brand. The company gave retailers higher margins and redesigned its bottles to save shelf space, improving the efficiency of transporting and selling the soap.²³ P&G's experience in cleaning up the detergent market also shows how a success in Japan can be leveraged in other Asian markets. P&G has taken the formula for Joy developed for Japan and has begun selling it in the Philippines and other Asian markets.²⁴

- Asahi Beer's careful positioning and segmentation allowed it to rise from a marginal role in the Japanese beer market to establish itself as the leader in a fast-growing niche for dry beer. The industry had long been dominated by Kirin, whose strong corporate image and monotonous offering of lager beer had earned it a fairly stable 60-percent share. But in 1987, Asahi launched Asahi Super Dry, a new beer with a fresh, sharp taste that helped to establish the dry beer market in Japan. By its third year, the Asahi name had become virtually synonymous with dry beer and it had captured 90 percent of the dry beer market. Its share of the overall beer market continued to grow until, in the spring of 1998, it was neck-and-neck with Kirin. Asahi's share was 39 percent, compared to 41 percent for its rival (although Kirin regained some strength by developing the market for a new low-priced beverage with reduced malt content called happoshu).²⁵

Asahi exploded the myth that all beers taste the same and that Japanese consumers would accept anything served up by a dominant firm. To Kirin's surprise, it turned out that Japanese consumers did have taste buds and minds of their own. (Kirin also lost ground to Asahi in distribution. Reluctant to antagonize its networks of small liquor stores, Kirin was slow to move to discount and convenience stores, which have become key outlets in distributing alcoholic beverages.)

- MosBurger, a Japanese hamburger restaurant, has found success in differentiating itself against McDonald's and other large rivals. It has nearly as many stores as McDonald's and has posted remarkable growth despite a sluggish economy. Although McDonald's still dominates the market (with a 51.6-percent share compared to Mos's 25.5 percent), MosBurger has built and sustained a strong position by focusing on a niche. Even when McDonald's ran a '100 (under a dollar) burger campaign next door, MosBurger sales were virtually unaffected (although an '80-campaign helped drive McDonald's sales up 18 percent in 1996, while MosBurger remained static).²⁶ Nonetheless, MosBurger has held a solid number two position in Japanese burgers through its distinctive strategy. MosBurger left prime locations and speedy service to its fast-food rivals. It instead relies upon off-beat locations, small stores, and customers willing to withstand long waits for flavorful, cooked-to-order burgers. For a growing group of loyal fans, the inconveniences and inaccessibility only add to MosBurger's attractiveness.
- The Body Shop, a U.K.-based firm that entered Japan in 1991, has experienced soaring growth in sales and new stores. By 1995, sales had multiplied by ten and the number of shops had quadrupled without any advertising, instead relying on word of mouth and store displays. The company's environmentally friendly products appeal to young Japanese women concerned about value, distinctive style, and ecological issues.

- Convenience stores became the most profitable retail category in the late 1980s, led by Itoh-Yokado's 7-Eleven. These small stores offered the efficiency of a retail chain without invoking the restrictions that tied the hands of large stores in Japan. But the convenience stores' most powerful source of success was their effective use of information about product sales and customer needs. By developing highly sophisticated point-of-sale (POS) information systems, they aggressively tracked sales and replaced slow-moving items on their shelves. The market was shocked when Itoh-Yokado, then only the third-largest retailer as measured by stores and sales volume, posted higher profits than first-ranked Daiei. The logic of the producer-driven market-in which more shelf space devoted to a manufacturer meant higher profits-had been inverted. Instead of the manufacturer being able to push its product by having larger shelf space, manufacturers had to earn shelf space by generating consumer pull. The Japanese franchise was so successful, it ended up buying U.S.-based parent Southland Corporation.
- Using round-the-clock 800 numbers and specially designed catalogs for the Japanese market, U.S. retailers such as Lands' End and L.L. Bean are bypassing Japanese distribution channels to reach customers directly. Foreign direct-mail sales grew to an estimated 200 billion (\$1.8 billion) in 1996, accounting for about 10 percent of total direct-mail sales. A survey of 149 overseas catalog marketers found that 14.8 percent of the firms mailed Japanese-language catalogs and others were preparing to offer translated catalogs.²⁷ Japanese sales accounted for 60 percent of total sales of the British-based Cashmere Store and nearly a quarter of foreign companies surveyed reported that Japanese sales exceeded 10 percent of total sales. In 1998, American insurance company AIG announced plans for one of the first Japanese campaigns to sell auto insurance by mail.²⁸
- Luis Vuitton, Hermes, Gucci, and other fashion leaders are undergoing rapid expansion. They are taking advantage of the new tastes and disposable income of unmarried working women and the increasing expression of individuality.
- Financial services firms such as Merrill Lynch and Citibank have taken advantage of the big bang in financial markets, weakened banking institutions, and increased consumer acceptance to rapidly develop their positions in Japan.
- Major world advertising agencies, which have made limited progress due to the differences in the culture and structure of the Japanese advertising industry, are now moving steadily into Japan through acquisitions and alliances. WPP and Omnicom, for example, have stepped up their investments. As success in advertising depends increasingly on creative strengths as opposed to media access, the opportunities are increasing for companies that have or can develop these strengths.

To take advantage of the wealth of new opportunities, these companies understood and used the changes in Japanese markets. It was not structural advantages, distribution relationships, regulatory favors, or strong corporate names that were the primary reasons for their success. In fact, many were tiny upstarts or players with small positions in Japan. Instead, it was savvy, entrepreneurial courage and sophisticated marketing, which had rarely been as effective in Japan before. Now, these market-driven approaches had dramatic results. The smart companies rethought their strategies for branding and positioning. They used pricing and promotions as marketing tools. They reshaped their distribution channels. They gathered and used market information. They discovered and met the needs of an emerging Japanese and Asian consumer market, the likes of which had never before been seen. We will examine these changes in more detail in Chapter Two.

Opening the Gateway to Asia

The value of understanding changes in Japanese markets is not limited to Japan. Japanese companies are among the most important players in all emerging Asian markets. The nation still accounts for nearly two-thirds of the entire East Asian economy, and it would be hard to develop a coherent strategy for the region while ignoring this part of the market.²⁹ A 1998 JETRO survey of 705 foreign companies found an increasing interest in Japan as a base for future Asian operations. While only 10 percent considered Japan as their current base for Asian operations, some 24 percent said they considered Japan to be the base in the future.³⁰

How does success in the Japanese market contribute to success in other parts of Asia? As we will consider in more detail in Chapter Three, there are a variety of ways Japan serves as a gateway to Asia.

A Window on Asian Culture

Although there are great cultural gulfs separating Japan from other Asian countries, the leap from Japan to the rest of Asia is in many ways not as great as the step from the West to Japan. Recent studies have shown significant similarities among young Asian consumers and important differences from their Western peers.³¹ Awareness of some similarities, such as a rice culture, similar hair and skin needs, and other characteristics often give companies with an experience in Japan an edge over rivals without that experience. For example, P&G's Whisper, a sanitary napkin tailored to the needs of Japanese women, is the leading brand in its category in Japan and has been very successful in other parts of Asia. Unilever's dishwashing products designed for Japan have also been successful in Asia. (It should be stressed, however, that Asian markets are no more Japanese than Japan is Western, and they are as heterogeneous as most Western markets.)

Blueprint

Japan is one of the best case studies for the rapid emergence of a modern economy—from its post-war start to a fully developed modern economy. Japan's experience in shifting from a producer-driven economy to a consumer-driven market, its shift from a closed to an open society, its move from a homogeneous market to a heterogeneous market, the power of institutions such as MITI in shaping the economy, the rise of entrepreneurship, and the changing role of women are all trends that can be or are being repeated in various parts of Asia. Emerging Asian economies won't be identical to Japan's, but by examining how these changes play out in Japanese markets, companies can gain experience in handling these changes in other Asian markets.

Trendsetter

Asia looks to Japan for fashion and products in much the same way as Japan looks to the West. While Japanese tourists head to Disneyland in California, Asian travelers pour into Tokyo Disneyland. They read Japanese manga comics, use Japanese appliances, drive Japanese vehicles, and play Japanese computer games. Tokyo is the financial and cultural capital of Asia in the way that New York City is the capital of North America.

Collaborator

In addition to offering perspectives on Asian markets, Japan also offers experience and insight into working with Japanese partners. Japan is the most powerful player in the development of Asia. There are few parts of Asia in which new entrants will not find

themselves working with Japanese suppliers, retailers, or other firms. Japanese companies are huge investors in Asia. They have also been involved in Asia for far longer than most Western firms.

Competitor

Just as Japanese firms are very often the most powerful partners in entering Asia, they are also the most significant competitors. For companies facing off against Japanese firms in Asia, the home market offers insight into their strategies and corporate approach.

Cash Generator

Because of the size and spending power of the Japanese market, companies can build capital and a base of operations for other parts of Asia. While other Asian markets are still developing, firms can actually make money in Japan in the short term.

Japan's Emerging Marketing Age

The overriding impact of the transformation of the Japanese market is that marketing has become more important than ever to success in Japan. The market has transformed from a "push" economy based on what companies produced to a "pull" economy based on what consumers demand. Whereas they once were an afterthought, marketing issues now make or break a company's position in Japan. The winners in the new Japanese market will be the companies with the most creativity and skill in marketing. Japan has entered its Marketing Age and it is very likely many other Asian countries will follow suit as their economies develop.

The changes in Japan are not "Westernization," but "modernization." It is not the creation of a Westernized Japanese market, but rather the emergence of a distinctly Japanese consumer market. Although global music predominates, a full 40 percent of popular music sales in Japan are by Japanese groups. Citizens live in contemporary apartments, but they still take their shoes off when they enter. Companies such as Snapple, which failed to adjust its pulpy products for the Japanese market, or car companies that have neglected to shift steering wheels or worry about scratches or other cosmetic problems, have learned that they ignore these differences at their peril.

Soccer Among the Sumos

In the old market, large corporations threw their weight around like massive sumo wrestlers as the customers looked on. The matches were fierce but also ceremonial, aggressive yet civil. These were highly stylized matches. Like sumos, the most successful new products came from the large and established stables. The customer was on the sidelines.

The new market is much more like soccer. Small, nimble players move the ball down the field. There is no long staring match or clash of titans, just a rapid-fire drive for the goal. It is probably no coincidence that the first professional soccer league in Japan was created in 1993, and the team made it to the World Cup in Paris in 1998.

It is important to note that soccer has not displaced the sumos. Soccer and sumos exist in nearby arenas, a few channel clicks apart on Japanese television. In the same way, the traditional Japanese market with all its idiosyncrasies is still very much a part of Japanese business, even as the new one emerges. The old system remains like the closed walls of the emperor's palace that rise in the heart of modern Tokyo. While a new consumer, new distribution, and new advertising approaches are transforming the landscape of the Japanese market, the old consumer and the old market remain.

This is the delicate balance of Japanese marketing today. To ignore the developments at

the Hankyu department store, discussed in the opening of the chapter, is to miss a tremendous opportunity in one of the world's most lucrative markets. It would also mean missing important lessons for the rest of Asia. To ignore the Imperial Palace is to risk assuming that the Japanese market has been remade in the image of the West. Tokyo is not New York. It is still a uniquely Japanese model, in which sumo wrestling and soccer exist side by side.

Points of Leverage

- Given these changes, what are the implications for your strategy in Japan?
- What are the assumptions on which you are basing your Japan strategy? In light of the discussions of myth and reality, how much of your strategy is based on myth or the new realities?
- What are the marketing strategies that might be possible for you to use now?
- Is this a time for increasing your investment and involvement in Japan? In what areas? Why or why not? As you continue to read through the book, you may want to consider whether the changes described here warrant a change in your initial strategy for investment and involvement in Japan.